

UNNUMBERED LETTERS ISSUED FOR THE MONTH OF NOVEMBER 2001

Dated	Subject	Distribution
11-05-01	Calculation of Annual Income	S/D
	Reminder of Change in Promissory Note Requirement for Section 504 Loans	S/D

November 5, 2001

SUBJECT: Calculation of Annual Income

TO: State Directors, Rural Development

ATTN: SFH Program Directors

FROM: David J. Villano *(Signed by David J. Villano)*  
Deputy Administrator  
Single Family Housing

This memorandum is to clarify how benefits such as medical and life insurance premiums should be treated for the purposes of calculating annual income for loan eligibility and payment assistance. This issue has surfaced because of the current trend by employers to provide “cafeteria” benefit plans which allow employees to customize their fringe benefit packages. Some of these employers display the value of the “selected” fringe benefits on the borrower’s pay statements. Handbook 1-3550 and HB- 2-3550 currently state that “Employer provided fringe benefits which are not included as taxable income on an employee’s pay statement or W-2 statement” should not be counted as annual income. This statement has been misinterpreted to mean that only “taxable” income is counted as annual income with the result being that if benefits are not taxable those items would be excluded from annual income. The Handbooks were intended to state that employer provided fringe benefits which are not included as gross income on an employee’s pay stub or W-2 statement should not be counted as annual income.

This inconsistency is evident where the customer’s income has not changed between the date of loan closing and the first payment assistance renewal date and the borrower receives a different amount of subsidy because of how the pre-tax items are treated.

For the purposes of the Single Family Housing program, the gross income will be used to calculate annual income. Using the gross income will make it unnecessary to determine whether or not benefits are counted as part of the income. Accounts where the “taxable” income was counted as annual income should not be handled as unauthorized assistance.

The 3550 Handbooks are being clarified to reflect gross income.

EXPIRATION DATE:  
October 31, 2002

FILING INSTRUCTIONS:  
Housing Programs

November 5, 2001

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers,  
Community Development Managers and all Staff Involved with the  
Section 504 Program

FROM: James C. Alsop *(Signed by James C. Alsop)*  
Acting Administrator  
Rural Housing Service

SUBJECT: Reminder of Change in Promissory Note Requirement for Section 504  
Loans

This is a re-issuance of the unnumbered letter dated January 22, 2001. The purpose of this unnumbered letter is to remind field offices of the change in the security requirements for Section 504 loans from \$2,500 to \$7,500. Public Law No. 106-569 became effective December 27, 2000, to amend the minimum security requirement in the Section 504 housing repair loan program. This law changed the security requirements for the total Section 504 indebtedness of \$7,500 and over to be secured by a mortgage on the property. Therefore, Section 504 loans less than \$7,500 will not need a mortgage and only loans \$7,500 and over must be secured by a mortgage or deed of trust on the property.

The National Office is in the process of revising 7 CFR Part 3550, Section 3550.108 and its Handbook to reflect this change. State Directors are responsible for assuring the requirements of this legislation and unnumbered letters are implemented in the Section 504 loan program. Community Development Managers must ensure that the requirements of the program are followed and the applicants' casefiles are documented to reflect this change.

The increase in the amount of the loan secured by only a promissory note will enable the Agency to serve many eligible 504 loan applicants who are unable to meet the more stringent security requirements. Also, this increase will assist State Offices in fully utilizing funding in the 504 loan program. Therefore, it is imperative that all of our partners be informed of the increase in the amount of the security requirements.

EXPIRATION DATE: September 30, 2002

FILING INSTRUCTIONS:  
Housing Programs